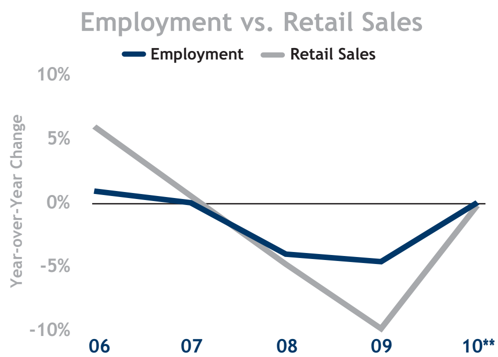
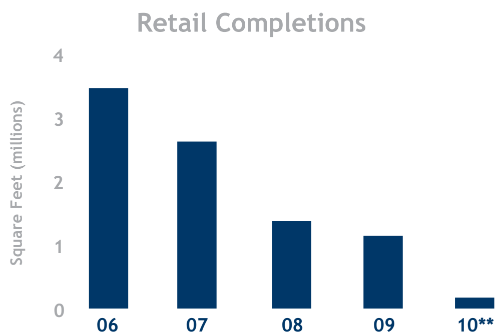
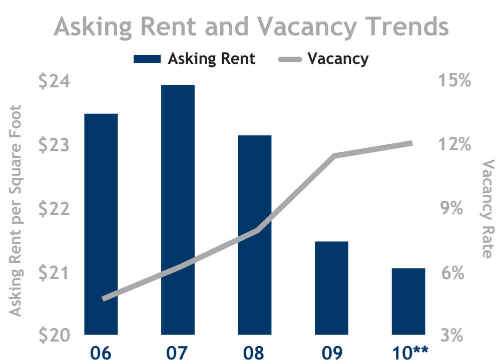
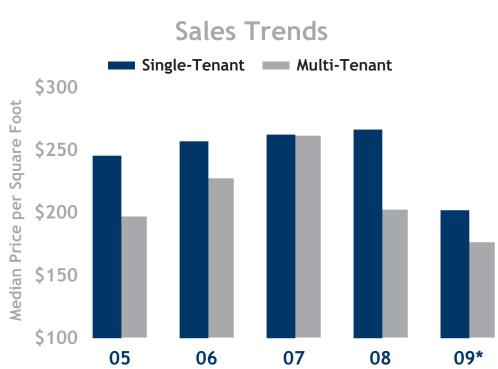
Sacramento

Up 5 Places | **2010 Rank: 33** | **2009 Rank: 38**









* Estimate ** Forecast

Depth of Housing Downturn to Suppress Retail Sales, Delay Leasing Activity

Further job losses and tightening consumer credit will sustain challenges in the Sacramento retail market in 2010. In an effort to trim the California budget deficit, work furloughs and layoffs in the state capital's large government sector may continue this year, weighing down consumer confidence and spending. Compounding these issues, the median home price has fallen more than 50 percent from the peak, restraining sales of big-ticket items. As a result, leasing will remain weak, and in-line space is expected to go dark, pushing vacancy higher. These trends will be most pronounced in hard-hit communities in the outer suburbs that were hotbeds for residential construction in recent years, including new neighborhoods in the Placer County and Rancho Cordova/Route 50/Folsom submarkets, where population growth projections never materialized. Conditions in suburban areas will remain the most volatile this year, while dense retail corridors downtown are expected to post steadier results as redevelopment projects help to stimulate retailer demand.

While market uncertainty and buyers' anticipation of discounted, bank-owned assets stalled multi-tenant asset sales last year, a rise in REO listings will begin to establish a pricing benchmark in 2010 and slowly pull capital from the sidelines. Nonetheless, multi-tenant listings in outlying areas will require sizable discounts that will enable operators to offer rents in line with current market rates. This year, cap rates are expected to average in the low- to mid-9 percent range for multi-tenant assets and above 10 percent for suburban properties. Single-tenant deal flow was relatively steady last year, and these assets will continue to garner interest in 2010, though only owners who have identified 1031-exchange opportunities are likely to list. Conservative buyers will favor fast-food and necessity-based chains in close-in areas like downtown and midtown. Cap rates for single-tenant properties in these locations will average in the low- to mid-7 percent range, with a 100 basis point premium for those in farther-reaching neighborhoods.

2010 Market Outlook

- **2010 NRI Rank: 33, Up 5 Places.** A dramatic slowdown in completions supports the Sacramento market's five-spot improvement in the ranking.
- **Employment Forecast:** After 40,800 jobs were cut last year, the local work force is expected to shrink by 0.1 percent, or 1,200 positions, in 2010.
- **Construction Forecast:** Developers are delaying projects until economic conditions steady. Following the delivery of 1.1 million square feet in 2009, completions will slow to just 125,000 square feet this year.
- **Vacancy Forecast:** In 2010, vacancy is projected to rise 60 basis points to 12 percent. Last year, vacancy increased 350 basis points.
- **Rent Forecast:** With vacancy edging higher, asking rents are forecast to fall 2 percent this year to $21.00 per square foot, while effective rents will decline 5 percent to $16.84 per square foot.
- **Investment Forecast:** Following years of retailers targeting newer communities, infill projects like the 240-acre Railyards will transform downtown Sacramento and refocus tenant demand as more residents and businesses flock to the area.

Market Forecast	Employment: 0.1% ▼	Construction: 89% ▼	Vacancy: 60 bps ▲	Asking Rents: 2.0% ▼